

Evaluation of Regional and Municipal Finance Management Quality

Margarita Yu. Garafieva

Kazan Federal University, Kremliovskaya Str. 18, 420008 Kazan, Russian Federation

Abstract: At present, Russian Federation carries out the reforms in a number of strategic management trends concerning regional and municipal finances. One of the reform priorities is the improvement of management efficiency and quality in respect of regional and municipal finances at all stages of the budget process. Due to the understanding of the need to improve the quality of financial management at the municipal level an active scientific and practical work is performed in Russia. The objectives of the study are the study of the legal framework for the assessment of the regional finances management quality and the possibility analysis on the use of the proposed evaluation at the municipal level. This study is devoted to the monitoring system concerning the quality of public finance management, the groups of quality evaluation indicators are studied at the regional level, the shortcomings of their practical application are revealed.

Key words: Financial management, budget, monitoring, evaluation of management quality, control indicators, regional finance, state property management

INTRODUCTION

The state financial control in terms of financial management includes a number of conceptual documents but they do not adequately solve the problem of monitoring and management quality assessment in respect of regional finances. In the context of the range of issues expansion solved at the expense of the Russian Federation budgets and municipalities the problems of efficiency and the quality of management decision at the distribution of the available Russian Federation subject budgets, the search of additional sources to cover the deficits of regional budgets and the transfer of the existing experience on the municipal level become relevant ones.

The performance of measures improving the quality of financial management in the public sector of the Russian Federation subjects and municipalities has been carried out since 1999, within the framework of Russian Federation Government conceptual documents implementation (Concept of intergovernmental fiscal relations reforming in Russian Federation during 1999-2001, the concept of intergovernmental relations and quality management increase concerning the public and municipal finance in Russian Federation during 2006-2008 and the concept of intergovernmental relations and the organization of the budget process in Russian Federation and municipalities until 2013 etc.) and also in accordance with the provisions of the budget messages from the Russian Federation President on budget policy during the corresponding years. To improve the quality of public financial management in 2013 the state programs “Public

Finance Management” and “Creation of conditions for effective and responsible management of regional and municipal finances, the stability of Russian Federation budget increase” were adopted. And one of the priorities concerning the “Program improving the efficiency of public (state and municipal) finance management till 2018” is the improvement of state and municipal financial control in order to focus on the effectiveness of budget spending assessment and the improvement of financial management quality in the public sector.

The regional and local authorities play an important role in the budget systems of countries, whose experience in the application of best practices was considered during the preparation of such kind of national documents. In international practice, the government usually controls the quality of public finance management at the regional and local level, establishing the quality evaluation indicators concerning the provided services. For example, there is the system of “eight early warning indicators” in Italy aimed at the management quality standards. In Japan, the work of the government and local administrations is evaluated providing the evaluation of their activities, the recommendations are provided to monitor their compliance carefully. In the UK, the Audit Committee assesses the quality of management on the basis of economy and efficiency standards, forcing the authorities to achieve the best results in its activities.

The strategy of region and regional finance development and management was considered by such authors as Yu and Hassan (2014), Bagautdinova *et al.*, (2012), Vasilyevich and Grigorievich (2015), Sabitova and Tukhbatullin (2015), Efremova and Sabitova (2014). In

world practice, the problems of state and municipal control in general were considered in the researches of such researchers as Muhammad and Islam (2015), Arifin and Trinugroho (2015).

MATERIALS AND METHODS

The management quality as a whole reflects the degree of management process development. At the same time, management is considered as an activity, culminating in the creation of a specific product a control action or an administrative decision. A direct management product, presented as a decision, a resolution, a plan, a program, a law or a regulation, does not satisfy the final needs of society or economy. Only at the transfer on the control object (state and municipal finance), prompting of an object to function in a way necessary for a subject control (of legislative and executive authority) the management process results in a product the quality of which may be estimated according to the ability to meet public needs.

The management quality evaluation concerning regional finances is carried out through a system of monitoring and in terms of state financial control standards monitoring is defined as the type of control activity.

At the level of the Federation subjects the quality of regional finances management is carried out on the basis of the regional funds monitoring and quality management evaluation order, approved by the Russian Federation Ministry of Finance Order No. 552 dated on December 3, 2010. According to the results of the monitoring all Russian Federation subjects are ranked on the basis of the data obtained and the rating of Russian Federation subjects is developed. At that, all subjects are divided into three groups: with a high, a proper or a low quality control.

The results of regional funds management quality evaluation are published annually on the official website of Russian Federation Ministry of Finance and are presented in Table 1 (the data of the year 2014 were not published). The analysis was conducted in all 83 regions of Russian Federation. The subjects with a high quality control are usually the same every year, at that the number does not change either whereas the number of

low quality control subjects in respect of regional funds is decreased each year with a simultaneous increase in a group with an appropriate quality. One-third of the regions with a proper control quality have the violations in the area of budget legislation.

The evaluation of quality describes the following aspects of regional funds management (trends) in Russian Federation subjects:

- Budgetary planning
- Budget execution
- Public debt management
- Financial relationships with municipalities
- State property management and the provision of public services
- Budget process transparency

Let's take a closer look on the indicators that characterize the quality of budgetary planning, budget implementation and the management of property or service provision.

RESULTS AND DISCUSSION

The evaluation of regional funds management quality is presented on the basis of six groups of target indicators. Three of them (budget planning, budget execution, state property management and the provision of public services) are of the greatest interest in order to apply them at a municipal level for municipal funds management.

Evaluating the quality of budgetary planning, the Finance Ministry of Russian Federation proposes to assess the accuracy of revenue prediction as well as the amount of lost revenue from regional budgets as the result fixed tax breaks. This group includes seven indicators that assess the quality of budget implementation by revenue and expenditure, including the share of program costs, the effectiveness of tax incentives, the amount of budget credits planned for obtaining.

Evaluating the possibility of this estimation method use for the local government, it is necessary to take into account that the specific weight of budget expenditures share, generated within targeted programs at the municipal level can not reach 100% as the part of local budget costs may not be reflected in program documents, for example, the labor costs of the administrative unit.

Further, the abovementioned indicators do not reflect the level of the planned budget deficit which is now a relevant issue at the local level. It is also worth noting the effectiveness of tax incentives evaluation and the level of revenue but this method does not take into account unexplained incomes.

Table 1: The results of regional funds management evaluation during 2009-2013

Regional funds management quality	2009	2010	2011	2012	2013
High	24*	23	23	23	23
Proper	38	44*	48*	54*	54*
Low	21	16	12	6	6

*The group which includes the Republic of Tatarstan

We would like also to note the lack of tax and non-tax revenues planning as a disadvantage. And in terms of constant lack of financial resources, the planning of non-tax revenues could be success for the replenishment of local budgets.

If we talk about the indicators that characterize the quality of budget implementation, they are also represented by a group of seven indicators, the main focus of which is made on the budget costs estimation and accounts payable. The availability of the results of financial management quality estimation concerning the main managers of budgetary funds and the government task performance monitoring.

It is worth noting that the establishment of reserve funds in the regions is estimated positively. However, in a number of Russian Federation subjects such funds are not created as the source for its development are the own budget revenues and the formation and execution of subject budgets happens recently in adverse conditions. This indicator is not relevant to assess the quality of municipal finances management.

At the evaluation of budget execution quality, the account payables figures are taken into account and the account receivables are not taken into account. However, this issue is quite relevant at all levels of the Russian Federation budget system.

Assessing the quality of budgetary planning and the execution of budget the assessment of the financial independence of the Russian Federation subjects and its municipalities should be taken into account. However, the indicators proposed by the procedure do not reflect the state of affairs on this issue.

At the evaluation of state property quality management and the provision of public services ten indicators are calculated, most of which deal with legal indicators, such as the existence of a legal act and only two reflect the quality of state property management. However, the formula of its calculation is doubted. For example, the effectiveness of financial investments management is calculated as the ratio of income (in the form of earnings according to authorized capital shares or the share dividends owned by the Russian Federation subject) to the book cost of the shares and other forms of equity. But, the book value of shares reflects the accounting valuation of the share cost which, as a rule, does not coincide with its market value. The market value also represents a real purchase price paid by an investor.

Therefore, when the effectiveness of financial investment is evaluated the use of a book cost is inappropriate in our opinion. The calculation of the

following indicator, the efficiency of Russian Federation budget use by state unitary enterprises, is calculated as the ratio of gratuitous and irrevocable transfers volume from a subject budget for a unitary enterprise to the subject budget income from the transfer of a state unitary enterprise profit share reflects the actual calculation of efficiency as such (the ratio of spent means to the obtained ones) but it does not reflect the actual funds management quality received by unitary enterprises.

CONCLUSION

Currently, the evaluation of RF subject and municipality funds by the Russian Federation Ministry of Economic Development, the Russian Federation Ministry of Finance as well as by international rating agencies (such as Moody's, Fitch, Standard and Poor's). The assessment of the region financial condition by rating agencies was considered in the works of such researchers as Sabitova and Shavaleeva (2014), Grzebyk and Musial-Malago (2014). The monitoring conducted by the Ministry of Economic Development is aimed primarily at socio-economic development of Russian regions and municipalities. The monitoring conducted by the Ministry of Finance, aims to assess the quality of regional and municipal finances management, primarily on the performance of the budget legislation demands and is carried out in such areas as budget planning, budget execution, public debt management, the financial relationships with municipalities, the management of state property and the provision of public services, the transparency of the budget process. On the basis of the performed study, it can be concluded that the assessment of the regional funds management quality is largely based on the economic situation and is not directly related with the assessment of the public legal institution financial activity. Also, not all indicators presented by this system reflect the quality of management, financial management and may be applicable to municipalities. The calculations of individual indicators are also doubted.

Thus, the main drawback of the current system of monitoring and evaluation of regional funds management quality is an inadequate coverage of all areas of public finance management. The monitoring and evaluation is usually carried out only in some areas of regional funds management. And in our opinion, the indicators of state property management and public service provision are less developed. The structure of this group is focused mostly on the quality of public service provision and does not reveal the issues of asset management efficiency of Public Law entities quite enough.

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